



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. G05-41
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>COMMONWEALTH INSURANCE</b>	)	AND ORDER ADOPTING REPORT
<b>COMPANY OF AMERICA</b>	)	OF
	)	FINANCIAL EXAMINATION
A Domestic Insurer.		

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**BACKGROUND**

An examination of the financial condition of **COMMONWEALTH INSURANCE COMPANY OF AMERICA** (the Company) as of December 31, 2003, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of authority as a stock insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Company for its comments on May 20, 2005. The Company's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

**FINDINGS**

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 19 of the report.

## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **COMMONWEALTH INSURANCE COMPANY OF AMERICA** and to order the Company to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Company may have implemented the Instructions and Comments and Recommendations prior to the date of this order. The Instructions and Comments and Recommendations in the report are an appropriate response to the matters found in the examination.

## ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions and Comments and Recommendations contained in the examination report on pages 1-6.

1. The Company is ordered to increase the liability for loss reserves by \$4,655,450 and loss adjustment expense reserves by \$905,550 for a total net income reduction of \$5,561,000, and to return the \$2,035,000 provision for unauthorized reinsurance to unassigned funds, for a net reduction of surplus as regards policyholders of \$3,526,000 (\$5,561,000 - \$2,035,000), pursuant to RCW 48.12.030(2). Instruction 1a, Examination Report, page 1.
2. The Company is ordered to comply with RCW 48.05.073, which requires every insurer to file its financial statements in accordance with the AP&P, and WAC 284-07-050(2) which states the annual statement shall adhere to the appropriate NAIC Annual Statement Instructions and the AP&P promulgated by the NAIC. Instruction 1b, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.31B.025 and RCW 48.31B.030, by properly disclosing and filing for approval or prior notice with the OIC certain arrangements among affiliates. Instruction 2, Examination Report, page 3.
4. The Company is ordered to comply with RCW 48.05.073, RCW 48.05.250, and WAC 284-07-050(2) in filing its NAIC Annual Statement in accordance with the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions. Instruction 3, Examination Report, page 4.
5. The Company is ordered to comply with RCW 48.06.200(5)(c)(sixth) and increase the number of current BOD members to five. Instruction 4, Examination Report, page 5.

6. The Company is ordered to comply with RCW 48.13.030(1) by limiting its investment in any single entity to four percent of its total assets. Instruction 5, Examination Report, page 5.
7. The Company is ordered to consider writing, testing, and implementing a disaster recovery plan that includes appropriate escalation procedures to resolve operational failures in a timely manner. Comments and Recommendations 1, Examination Report, page 6.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 30<sup>th</sup> day of June, 2005.

A handwritten signature in black ink, appearing to read "Mike Kreidler", is written over the printed name.

MIKE KREIDLER  
Insurance Commissioner



**Commonwealth Insurance Company  
of America**

**VIA COURIER (360) 725-7000**

June 1, 2005

Mr. James T. Odiorne, CPA, JD  
Deputy Insurance Commissioner  
Company Supervision Division  
Office of Insurance Commissioner  
5000 Capitol Blvd.  
Tumwater, WA 98501

**RECEIVED**  
JUN 02 2005

INSURANCE COMMISSIONER  
COMPANY SUPERVISION

**RE: REPORT OF EXAMINATION AS OF DECEMBER 31, 2005**

Dear Mr. Odiorne;

Concerning your report of May 18, 2005, the following are our comments on the facts in the draft of the referenced report of Examination of Commonwealth Insurance Company of America.

**1. Reserve and Reinsurance Deficiencies**

**a. Reserve Adjustments**

The facts as presented on Pages 1 and 2 of the draft report of examination are correct as of December 31, 2003. CICA agrees with the findings of Washington State as to the adequacy of its reserves. The company was constrained in its ability to book additional IBNR based on what it considered a valid reinsurance treaty with its parent. The parent, Commonwealth Insurance Company carried the additional IBNR based on the transfer of loss as calculated by the Stop Loss agreement. The 2004 Stop Loss treaty was amended to base the trigger on a loss ratio as opposed to a combined ratio. This change afforded CICA the opportunity to increase IBNR to adequate levels in 2004 (note no transfer of loss to the parent was made in 2004).

**b. Invalid Stop Loss Treaty**

The facts as presented on Pages 2 and 3 of the draft report of examination are correct as of December 31, 2003. The 2004 Stop Loss treaty agreement was amended to base the trigger on a loss ratio as opposed to a combined ratio. The premium charged by the reinsurer has been amended to be fair and reasonable as required by RCW 48.31B.030(1)(a)(i). It is our understanding that with the approval of the Commissioner the revised treaty can be accounted for as a valid reinsurance arrangement.

1700 Seventh Avenue Suite 1850 Seattle WA 98101-1397 Telephone: 206 382 6670 Fax: 206 382 6669



**2. Insurer Holding Company Act Violations**

a. Stop Loss Treaty

The facts as presented on Page 3 of the draft report of examination are correct as of December 31, 2003. The Form D filing for the revised 2004 treaty has been acknowledged as received from your office and states that "the Commissioner does not disapprove the agreement". The agreement will be disclosed in the annual Form B filing.

b. Investment Service Contract

The facts as presented on Page 4 of the draft report of examination are correct as of December 31, 2003.

c. Management Expenses

The facts as presented on Page 4 of the draft report of examination are correct as of December 31, 2003.

**3. NAIC Annual Statement Errors and Misclassifications**

The facts as presented on Pages 4 and 5 of the draft report of examination are correct as of December 31, 2003.

**4. Board of Directors**

The facts as presented on Page 5 of the draft report of examination are correct as of December 31, 2003. The company will comply and require the appointment of at least five directors.

**5. Investment Exceeded Limitations**

The facts as presented on Page 5 of the draft report of examination are correct as of December 31, 2003. The company will comply with RCW 48.13.030(1).

**1. Disaster Recovery Plan**

The facts as presented on Page 6 of the draft report of examination are correct as of December 31, 2003. The company will document, test and implement a disaster recovery plan as part of its compliance requirements with Section 404 of Sarbanes-Oxley Act.

We trust the foregoing meets with your requirements.

Yours truly,

Ronald G. Schwab  
President and CEO

RGS/tb